

**Computers Used to Provide Free Tax Help and
That Contain Taxpayer Information Cannot Be
Accounted For**

August 2002

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This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

August 13, 2002

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Computers Used to Provide Free Tax Help
and That Contain Taxpayer Information Cannot Be Accounted
For (Audit # 200240050)

This report presents the results of our review to determine if the Internal Revenue Service (IRS) had adequate internal controls and accountability over computer equipment containing electronically filed (e-filed) taxpayer data used in the IRS' Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs.

The Internal Revenue Service's volunteer programs provide free tax help to people for whom professional assistance may be too expensive, such as those individuals who have disabilities, are non-English speaking, are elderly, or who have other special needs. In an effort to promote IRS e-filing, the IRS provides computers along with the tax preparation software necessary to enable the Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) sites to offer taxpayers who receive assistance the option of e-filing their tax returns. For Filing Season 2001, volunteers prepared approximately 1.1 million tax returns with over 700,000 (64 percent) having been e-filed.

In summary, we found that the IRS does not have adequate internal controls and accountability over the computers it provides to VITA/TCE sites. Our review identified that (1) the IRS cannot physically account for computers provided to volunteers, (2) the IRS did not ensure that taxpayer e-file data was removed from volunteer computers at the end of Filing Season 2001, and (3) the IRS did not ensure that only authorized software was loaded on volunteer computers when provided.

Management's Response: The IRS agreed with our recommendations as presented in this report. SPEC will: (1) perform a complete inventory assessment and validate the equipment used in volunteer tax preparation programs, (2) temporarily suspend the

acquisition of equipment from external sources, (3) issue instructions to territory managers to delete all taxpayer data from volunteer computers after a filing season, (4) include license authority in the development of procedures for acquisition of equipment from internal and external sources, (5) request an opinion from IRS Counsel on whether SPEC can provide software beyond that needed for tax return preparation on equipment owned by the IRS, and (6) request Division Counsel assistance in pursuing a legislative change to allow the transfer of computer ownership to organizations that assist SPEC in delivering volunteer tax return preparation.

Management's complete response to the draft report is included as Appendix V; however, the attachment (the SPEC Inventory Assessment and Validation Guide) was too large to include.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Michael R. Phillips, Assistant Inspector General for Audit (Wage and Investment Income Programs), at (202) 927-0597.

**Computers Used to Provide Free Tax Help and That Contain
Taxpayer Information Cannot Be Accounted For**

Table of Contents

Background	Page 1
Computers Containing E-File Data Cannot Be Located and Unauthorized Software Was Loaded on Volunteer Computers	Page 3
<u>Recommendation 1</u> :	Page 12
<u>Recommendations 2 and 3</u> :	Page 13
<u>Recommendations 4 and 5</u> :	Page 14
<u>Recommendation 6</u> :	Page 15
Appendix I – Detailed Objective, Scope, and Methodology	Page 16
Appendix II – Major Contributors to This Report.....	Page 17
Appendix III – Report Distribution List	Page 18
Appendix IV – Stakeholder Partnerships, Education, and Communication Territory Manager Responses	Page 19
Appendix V – Management’s Response to the Draft Report	Page 21

Computers Used to Provide Free Tax Help and That Contain Taxpayer Information Cannot Be Accounted For

Background

The Internal Revenue Service (IRS) Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs provide free tax help to people for whom professional assistance may be too expensive. The IRS, in coordination with volunteers, assists individuals with the preparation of basic income tax returns. Particularly, it assists those who have a low income or disabilities, are non-English speaking or elderly, or have other special needs.

VITA/TCE sites assist taxpayers in preparing Forms 1040EZ, *Income Tax Return for Single and Joint Filers With No Dependents*; 1040A, *U.S. Individual Income Tax Return*; and the basic 1040, *U.S. Individual Income Tax Return*, with related schedules. Assistance is also provided with determining eligibility for credits such as the earned income credit and advanced income credit. VITA/TCE sites are often located in convenient places for taxpayers who use the services of a volunteer. Locations include neighborhood community centers, libraries, churches, and shopping centers. For Filing Season 2001, there were approximately 18,000 VITA/TCE sites nationwide.

As part of the IRS' reorganization, oversight of the IRS' VITA/TCE programs, previously under the Taxpayer Education function, is now centralized under the IRS' Stakeholder Partnerships, Education, and Communication (SPEC) function. SPEC took control of the VITA/TCE programs in October 2000. SPEC's oversight of the VITA/TCE programs includes maintaining control and accountability over the computers the IRS provides to its volunteers.

In an effort to promote electronic filing (e-filing), the IRS provides over 6,600 desktop and laptop computers to VITA/TCE sites to enable these sites to offer taxpayers the option of e-filing their tax returns. The computers the IRS provides to its volunteers include the tax preparation software necessary to e-file a tax return with the IRS. E-filing enables volunteers to more accurately prepare tax returns and allows taxpayers to receive tax refunds quicker than would be received for a paper filed tax return. For Filing Season 2001, volunteers prepared approximately

Computers Used to Provide Free Tax Help and That Contain Taxpayer Information Cannot Be Accounted For

1.1 million tax returns with over 700,000 (64 percent) being e-filed.

Every year since 1983 the IRS has reported a material weakness with regard to its inventory controls in its Annual Assurance Statement to the Department of the Treasury. The lack of adequate controls and inability to account for the agency's computers has been a concern raised by the General Accounting Office (GAO), the Treasury Inspector General for Tax Administration (TIGTA), and the Congress.

The GAO, in a recent audit report,¹ found that serious weaknesses in the inventory system and controls continue to prevent the IRS from having equipment information available for management purposes, and thus having reasonable assurance that assets are properly safeguarded. Additionally, in a November 2001 report,² the TIGTA³ identified that although the IRS had established procedures to control its inventory of computers, it has experienced longstanding difficulties in maintaining reliable and accurate inventory information. For the past 3 years, the IRS reported approximately 2,300 missing computers.

This report is the result of an ongoing TIGTA review that is assessing whether the new SPEC function is meeting implementation timelines and standards to enable the function to effectively provide education, support, and assistance to individual taxpayers. The TIGTA review focused on specific functions within the IRS and included an evaluation of controls over computers provided for use in the IRS' VITA/TCE programs.

During the course of this review, auditors identified significant weaknesses relating to the control and

¹ *IRS's Fiscal Years 2001 and 2000 Financial Statements* (Reference Number GAO-02-414, dated February 2002).

² *Management Advisory Report: Review of Lost or Stolen Sensitive Items of Inventory at the Internal Revenue Service* (Reference Number 2002-10-030, dated November 2001).

³ The TIGTA review was conducted at the request of Senator Charles E. Grassley, Ranking Member of the Senate Committee on Finance. Senator Grassley, in a letter dated September 25, 2001, voiced concerns over the controls within the IRS to effectively perform its mission while protecting the integrity of its inventory of sensitive items.

Computers Used to Provide Free Tax Help and That Contain Taxpayer Information Cannot Be Accounted For

accountability over computers provided for use in IRS' VITA/TCE programs. Because of the significance of control weaknesses identified and because these computers contain taxpayer e-file data, this separate report is being issued. The IRS currently cannot donate computers to the VITA/TCE volunteers. The Federal Property and Administrative Services Act of 1949,⁴ prohibits the IRS from donating computers to volunteers and, as a result, the IRS must continue to maintain control and accountability over these computers as well as to protect the taxpayer data saved on these computers.

This audit was conducted at the IRS' Wage and Investment Division (W&I), IRS' SPEC Headquarters office and Asset Management from October 2001 to April 2002. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

The IRS does not have adequate internal controls and accountability over computers it provides to the VITA/TCE programs. Specifically, our review identified that:

- The IRS cannot physically account for computers provided to volunteers.
- The IRS did not ensure that taxpayer e-file data⁵ was removed from volunteer computers at the end of Filing Season 2001.
- The IRS did not ensure that only authorized software was loaded on volunteer computers when provided.

The IRS cannot physically account for computers provided to volunteers

The IRS developed the Information Technology and Asset Management System (ITAMS) to control its computer

Computers Containing E-File Data Cannot Be Located and Unauthorized Software Was Loaded on Volunteer Computers

⁴ Public Law 81-152, 63 Stat. 377.

⁵ E-file data is tax-filing information provided by a taxpayer to a volunteer to be used in the preparation of an electronic tax return. This information could include social security numbers, wages, deductions, tax credits, banking information, etc.

Computers Used to Provide Free Tax Help and That Contain Taxpayer Information Cannot Be Accounted For

inventory in March 2001. The ITAMS database is the IRS' system of record for computer inventory control.

To validate the information included in the ITAMS database and to ensure all assets are accounted for, the IRS' Asset Management Program Office required an annual certification (to be completed by the end of September 2001) of all computers that are considered critical, are highly pilferable, have high dollar value, experience frequent location or ownership changes, or have high value for some other reason. Per Asset Management, the value of desktop and laptop computers is not so much the cost as it is the value and sensitivity of the files included on the computers and their critical importance to the IRS' mission.

Ensuring that all assets are accounted for includes a verification of each computer with the verification date updated on the ITAMS. The certification confirms that the inventory results have been reconciled to the ITAMS database and that the inventory records reflect an accurate and complete inventory.

ITAMS certifications were not consistently performed

When TIGTA requested documentation supporting SPEC's participation in the Fiscal Year 2001 ITAMS certification, SPEC's national management could not confirm whether an ITAMS certification had been performed. The table below presents the results of an e-mail survey TIGTA performed of the 48 territory managers to determine the number of territory managers that participated/performed an ITAMS certification for Fiscal Year (FY) 2001. (See Appendix IV for a complete listing of responses by territory site.)

**Computers Used to Provide Free Tax Help and That Contain
Taxpayer Information Cannot Be Accounted For**

**Territory Manager Responses⁶ –
ITAMS Certification Fiscal Year 2001**

TIGTA Survey Question	Territory Responses	
	Yes	No
Was an ITAMS certification performed for FY 2001?	37	10

Source: Responses provided to TIGTA e-mail survey by the territory managers for 48 territories.

Subsequent to our receipt and analysis of responses from territory managers, concerns were raised by TIGTA to National SPEC management regarding the reliability of information received from the territory managers. Specifically, TIGTA questioned the validity of the responses regarding a confirmation that a certification was completed since the majority of records in the ITAMS database are incomplete and computers obtained during FY 2001 from external sources were not always included on the ITAMS (see below). National SPEC management also questioned the validity of the responses and concluded that there is not continuity or consistency with regard to VITA/TCE computer equipment.

An extract⁷ dated February 2002 from the ITAMS database identified in excess of 10,000 computers in the VITA/TCE programs, of which 3,818 are in some stage of the disposal process. However, the reliability of this information should be questioned, as an ITAMS certification was not consistently performed. For example, information identifying the location of the asset is often blank.

Computers obtained were not recorded on the ITAMS

Citing “a chronic failure by the IRS to maintain a complete and accurate inventory of its Information Technology (IT) property,” the Chief Information Officer, in March 2001,

⁶ Total territory manager responses does not equal 48 because one territory was not in existence at the time the certification was to be performed.

⁷ Extract provided to TIGTA by the IRS’ Asset Management Office.

Computers Used to Provide Free Tax Help and That Contain Taxpayer Information Cannot Be Accounted For

assumed ownership for computer assets within the IRS and launched the service-wide implementation of the Single Point Inventory Function (SPIF). The implementation of SPIF is an attempt to maintain control of computers from the time of receipt until the computer is disposed of.

Our review identified that SPEC did not always coordinate with local SPIF contacts to ensure that computers obtained from external agencies, including the military, were immediately recorded on the ITAMS, as required. We performed a random match of 41 computers (with estimated acquisition costs from \$1,082 to \$3,565) from 10 listings⁸ of computer equipment obtained by SPEC from the Air Force, the Navy, and the TIGTA to a February 2002 ITAMS extract and found that 38 (93 percent) of the 41 computers sampled were not on the ITAMS. There were approximately 1,016 computers detailed on these 10 listings.⁹

Furthermore, only one of the 10 listings indicated the VITA/TCE sites that the computer equipment was delivered to. The SPEC employee responsible for delivering equipment to VITA/TCE sites indicated that he generally does not record where the computer equipment is delivered. This individual informed us that information previously provided to TIGTA detailing volumes of computers obtained from the military and delivered to specific VITA/TCE sites was partly compiled from the individual's mental recollection. Furthermore, this individual indicated that he did not retain all paperwork to support the volume of equipment obtained from external agencies.

The validity of any information SPEC has regarding receipt and delivery of computers from external agencies is questionable due to the process followed by SPEC when delivering computers to these sites. For example, one VITA/TCE site noted that SPEC delivered a number of

⁸ The ten listings represent computers obtained from external agencies during the period January 2001 to February 2002.

⁹ Because of record keeping deficiencies, we could not determine if these 10 listings represented all computers obtained by SPEC from external agencies. For example, one of the listings had pages missing from its sequential order.

Computers Used to Provide Free Tax Help and That Contain Taxpayer Information Cannot Be Accounted For

computers and provided no equipment listing detailing what was delivered. The SPEC employee delivering the computers asked the VITA/TCE site receiving the equipment to prepare an inventory listing of what was received, including serial numbers, and send the completed listings back to SPEC. The listing prepared by the VITA/TCE site is the one and only inventory control record for these computers. Without adequate internal controls, the computers could be lost or stolen without any knowledge by SPEC.

Non-operational computers are not included on ITAMS

Our review identified that SPEC adds only those computers that are in working order to the ITAMS. Specifically, our contact with one VITA/TCE site found that SPEC delivered 282 computers to this site, and 64 were identified as not being operational. The VITA/TCE site that received the computers was required to make the determination as to whether computers are in working order.

A representative from this site noted that a number of the computers were broken because of the manner in which they were shipped (the computers were placed in the back of a rental truck). No direction has been given to this site by SPEC as to what it should do with the computers that were not operational.

Therefore, computers that are not operational will not be reflected in IRS inventory control records as having been received and then excessed. SPEC management could not provide us with a listing as to the number of computers obtained that were working versus not working. The SPEC manager who oversees the receipt of computers from external agencies commented to TIGTA auditors that control and accountability over these computers is a problem.

The IRS did not ensure that taxpayer e-file data was removed from volunteer computers at the end of Filing Season 2001

One of the functions of the computers provided to volunteers is to allow the volunteers to offer e-filing of tax returns. Because these computers are used for e-filing,

**Computers Used to Provide Free Tax Help and That Contain
Taxpayer Information Cannot Be Accounted For**

sensitive taxpayer data is saved to the computers' hard drives. National SPEC management indicated that they require territory managers to perform a physical verification to ensure that e-file data saved to volunteer computer hard drives is removed each year by the end of April. However, National SPEC management could not provide us with guidance sent to the territory managers directing the removal of e-file data from hard drives for tax Filing Season 2001.

In addition to requiring territory managers to verify the removal of e-file data, the SPEC function requires territory managers to issue and maintain Property Loan Agreements with volunteers to whom computers are provided. These Property Loan Agreements state that, at the end of the tax-filing season, a signed confirmation that all tax information has been removed from the equipment is to be returned by the VITA/TCE site. National SPEC Management could not confirm whether all territory managers had utilized the Property Loan Agreements during last filing season.

When TIGTA requested documentation supporting SPEC's FY 2001 removal of e-file data from volunteer computers, SPEC's national management could not confirm whether this was completed. The table below presents the results of an e-mail survey TIGTA performed of the 48 territory managers to determine the number of territory managers who physically verified that e-file data was removed from volunteer computers at the end of Filing Season 2001. (See Appendix IV for a complete listing of responses by territory site.)

Territory Manager Responses – Removal of E-File Data

TIGTA Survey Question	Territory Responses	
	Yes	No
Was a physical verification performed to ensure e-file data was erased from volunteer computers at the end of Filing Season 2001?	34	14

Source: Responses provided by the territory managers for 48 territories to TIGTA field survey questions.

Computers Used to Provide Free Tax Help and That Contain Taxpayer Information Cannot Be Accounted For

Because the location of the computers is not always included on the ITAMS and the fact that computers were not always added to the ITAMS, we could not determine the number of taxpayers whose e-file data may not have been adequately protected by the IRS from unauthorized disclosure or misuse. Information on tax forms is regarded as a prime target for identity thieves, including names, social security numbers, income, employment, and bank details. However, for Filing Season 2001, volunteers prepared over 1.1 million tax returns with over 700,000 being e-filed.

Concerns regarding the removal of taxpayer information from volunteer computers were raised in a prior TIGTA audit report.¹⁰ Specifically, TIGTA reported the potential for unauthorized disclosure of taxpayer data if the taxpayer information is not properly removed. In its response, the IRS' SPEC management agreed that all computers must be cleared of all tax return information at the end of the filing season and planned to provide further instructions to its territory managers requiring the removal of the information.

To date, this has not been done and the same conditions exist; however, the significance is further exacerbated with the inability of the IRS to account for computers provided to the VITA/TCE program.

In a recent letter to the TIGTA's Deputy Inspector General for Audit, an individual, who participates in the IRS's VITA/TCE program, shares concerns similar to those raised by TIGTA, relative to the safeguarding of e-file data contained on volunteer computers. This individual writes:

“Until the advent of the computer the VITA/TCE returns were completed by hand. The taxpayer received an original and one copy. There were no other copies of the returns left with the VITA/TCE volunteers or the sites. And no taxpayer files were kept by the volunteers or at the sites.”

¹⁰ *Persistent Physical Security Vulnerabilities Should Be Corrected to Better Protect Facilities and Computer Resources* (Reference Number 2001-20-108, dated July 2001).

Computers Used to Provide Free Tax Help and That Contain Taxpayer Information Cannot Be Accounted For

Since the IRS has been vigorously encouraging e-filing, many of the VITA/TCE sites are given tax preparation software and notebook computers. Now, besides the taxpayer copies of the tax information, the computers in the possession of VITA/TCE sites have taxpayer information stored on them.

There is no organized (or disorganized) program of security.

With the proliferation of identity theft and theft of financial information, it seems to me that the IRS should be concerned about this breakdown in there [their] tax information security system.”

The IRS did not ensure that only authorized software was loaded on volunteer computers

The IRS provides tax preparation software on volunteer computers. The software provided on these computers should be limited to tax preparation software, along with operating software that is needed to run the tax preparation software.

The Property Loan Agreement between the IRS and the volunteer specifies that the computers be used for volunteer tax preparation and related tax matters only. *The computers cannot be used for personal e-mail or other personal business.* In addition, in an IRS Memorandum dated November 21, 1994, from the IRS’ Assistant Chief Counsel, General Legal Services, Counsel notes “Before software is loaned, you must refer to any underlying contracts or software license agreements for the software to be loaned to determine if such a loan is a permissible use. If it is not a permissible use, permission from the copyright holder must be obtained in advance or the IRS may be in violation of the Copyright Act and the contract or agreement.”

However, our review identified that computers have been provided to volunteers with software other than operating systems and the tax preparation software. For example, the SPEC function provided approximately 300 computers to one VITA/TCE site that included word processing and spreadsheet software.

Computers Used to Provide Free Tax Help and That Contain Taxpayer Information Cannot Be Accounted For

When concerns were raised by TIGTA regarding the additional software, key managers within SPEC were unaware that the additional software was provided. Subsequent discussions with National management indicated that a Program Analyst who worked for the manager, who oversees the VITA/TCE equipment program, had obtained and loaded the word processing and spreadsheet software without authorization. Specifically, this analyst obtained the word processing and spreadsheet software from another IRS function without approval. National SPEC management could not provide assurance that additional computers were not provided with unauthorized software.

In addition, when National SPEC management was questioned as to whether they consulted with IRS' Chief Counsel prior to providing the software to ensure that there were no legal ramifications regarding licensing, management indicated that they had not contacted IRS' Chief Counsel prior to providing the software. Subsequent to TIGTA raising the possibility of legal issues, National SPEC management has contacted the IRS' Chief Counsel and is awaiting a written opinion as to whether word processing and spreadsheet software can be provided. In the interim, SPEC has contacted this VITA/TCE site and has requested that the word processing and spreadsheet software be removed from the computers.

Contributing factors

Several factors contributed to the inadequate internal controls and accountability over computer equipment containing e-filed taxpayer data used in the two volunteer programs, including:

- A lack of National SPEC management oversight existed over VITA/TCE equipment. Despite having oversight over the VITA/TCE equipment, National SPEC management did not implement internal controls and procedures to monitor and account for volunteer computers, to ensure taxpayer e-file data was removed from volunteer computers, and to ensure unauthorized software was not loaded on volunteer computers.

Computers Used to Provide Free Tax Help and That Contain Taxpayer Information Cannot Be Accounted For

- At the time of the SPEC's stand-up (October 2000), no physical verification and/or reconciliation was performed to determine the volume and location of computers used in the IRS' volunteer program that were being transferred from the former Taxpayer Education function to SPEC. The location of the computers is particularly important as the IRS provides volunteers with the option of retaining and storing computers at the completion of the filing season.
- Inadequate separation of duties existed with regard to SPEC's obtaining computers from external agencies. For example the individual requesting the computers from external agencies was not required to obtain approval from his manager prior to making arrangements to obtain the equipment. In addition, the individual who physically obtained the computer equipment from the external agencies was the same individual who delivered the equipment and was responsible for updating IRS inventory records.

Recommendations

The Commissioner, W&I Division, should:

1. Perform a physical inventory of all computers included in the IRS' VITA/TCE programs. This inventory should include verification of computers presently recorded on the ITAMS as well as identification of computers in the VITA/TCE programs that are not yet recorded on the ITAMS.

Management's Response: SPEC Headquarters instructed field employees to complete an inventory assessment and validate the equipment used in volunteer tax preparation programs. This assessment will identify and eliminate equipment that no longer meets minimum requirements for use in the volunteer program. SPEC will work with the Program Manager responsible for ITAMS to complete the consolidation process by July 15, 2003.

Computers Used to Provide Free Tax Help and That Contain Taxpayer Information Cannot Be Accounted For

The Director of Tax Aide, American Association of Retired Persons, asked her volunteers to conduct an inventory of IRS equipment in their possession.¹¹ SPEC will coordinate Tax Aide's inventory efforts with their own to account for all IRS computers used by Tax Aide on ITAMS.

2. Develop, distribute, and implement procedures to ensure that computer equipment obtained from external agencies is immediately added to the ITAMS inventory. Outlined in these procedures should be adequate separation of duties with regard to ordering/procuring, receiving, delivering, and inventorying computers.

Management's Response: SPEC has temporarily suspended the acquisition of equipment from external sources while it works with Modernization, Information Technology, and Security Services (MITS) and Agency-Wide Shared Services to develop a computer refreshment strategy using IRS equipment no longer needed by IRS employees. After developing this strategy, SPEC will determine whether needs still exist that could be met through external acquisitions. The new procedures will address ordering/procuring, receiving, delivering, including on inventory, and disposal of non-working equipment.

3. Develop, distribute, and implement procedures to ensure that taxpayer e-file data is removed from volunteer computers at the end of a filing season.

Management's Response: SPEC issued instructions to all SPEC employees on December 19, 2001, in the Fiscal Year (FY) 2002 Business Plan instructing the territory managers to delete all taxpayer data from volunteer computers. SPEC also incorporated the procedures for certification of data deletion into the SPEC Inventory Assessment and Validation Guide issued May 24, 2002. The inventory validation procedure discusses the responsibilities at the territory level of deleting information from equipment after a filing season. SPEC projects it will complete all certifications by October 15, 2002.

¹¹ Tax Aide is the largest recipient of the Tax Counseling for the Elderly grant program and contributes many hours in support of volunteer tax preparation activities.

Computers Used to Provide Free Tax Help and That Contain Taxpayer Information Cannot Be Accounted For

SPEC also conducted a training session for area analysts and tax specialists responsible for the Computers for Volunteers Program that included the following topics: ITAMS Single Point Inventory Function overview, procedures for removal of tax data, and software and hardware issues. SPEC will share additional guidance with this group as SPEC Headquarters develops it.

4. Develop, distribute, and implement procedures to ensure that only authorized software is loaded on to computers used in the IRS' VITA/TCE programs. Included in these procedures should be an immediate assessment of computers previously provided to volunteers to ensure that unauthorized software is removed.

Management's Response: SPEC will include license authority in the development of procedures for acquisition of equipment from internal and external sources. Inventory validation procedures, issued on May 24, 2002, discuss the territory offices' responsibility to determine whether: (1) software on the equipment is limited to the operating system, Internet Explorer, Adobe Acrobat, and tax preparation software and (2) other software is present on the equipment. The projected completion date for all certifications is October 15, 2002.

Based on this equipment survey and information provided by Counsel, SPEC will develop policy and procedures for authorized software and allowable software. SPEC asked MITS to consider the volunteer tax preparation program in negotiating future contracts for software purchases to clarify whether the IRS is licensed for loading software on equipment used in the volunteer tax preparation program.

5. Ensure that prior to loading software not specifically used in tax return preparation, a written opinion from IRS' Chief Counsel is obtained to ensure that the IRS has the legal authority to provide the software.

Management's Response: SPEC will request an opinion from IRS Counsel on whether SPEC can provide software beyond that needed for tax return preparation on equipment owned by the IRS. SPEC will also work with MITS to ensure that volunteer tax preparation program needs are

Computers Used to Provide Free Tax Help and That Contain Taxpayer Information Cannot Be Accounted For

considered when negotiating the purchase of software that may be of benefit to the program, such as operating system, security, and word processing software. SPEC will ensure MITS expands the language to cover use of the identified software on equipment owned by the IRS but used by volunteers.

6. In the long term, pursue legislative changes that would allow the IRS to transfer ownership of the computers to the VITA/TCE organizations.

Management's Response: On April 4, 2002, SPEC asked Division Counsel for assistance in pursuing a legislative change to allow the transfer of computer ownership to organizations that assist SPEC in delivering volunteer tax return preparation. On May 29, 2002, W&I Division Counsel forwarded a request for guidance to General Legal Services.

Computers Used to Provide Free Tax Help and That Contain Taxpayer Information Cannot Be Accounted For

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of the audit was to determine if the Internal Revenue Service (IRS) had adequate controls/accountability over computer equipment containing taxpayer e-file data used in the IRS' Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs. To accomplish this objective, we:

- I. Determined if the IRS physically accounted for computer equipment provided to the VITA/TCE sites. Specifically, we:
 - A. Reviewed and traced computer equipment from transfer order forms to listings of volunteer computers extracted from the Information Technology and Asset Management System (ITAMS).
 - B. Reviewed any documentation related to the Stakeholder Partnerships, Education, and Communication's (SPEC) Fiscal Year 2001 ITAMS certification of volunteer computers.
 - C. Reviewed and analyzed Filing Season 2001 feedback from 48 IRS territory offices to identify any issues with the physical verification of volunteer computer equipment.
 - D. Reviewed any documentation relating to unusable computer equipment to determine where these computers are held until they are excessed.
- II. Determined if the IRS ensured that taxpayer e-file data was erased from volunteer computers at the end of a filing season. Specifically, we:
 - A. Reviewed SPEC's Property Loan Agreement and its use by volunteers to ensure that all sensitive taxpayer data had been erased from the computer equipment.
 - B. Reviewed and analyzed Filing Season 2001 feedback from 48 IRS territory offices to determine if a physical verification was performed to ensure all e-file data was erased from the volunteer computers.
- III. Determined if the IRS ensured that only authorized software was loaded on volunteer computers. Specifically, we:
 - A. Interviewed SPEC management to determine the types of software loaded onto volunteer computers and the individuals responsible for loading the software.
 - B. Reviewed and analyzed an IRS licensing agreement to determine who has rights to the word processing and spreadsheet software.

**Computers Used to Provide Free Tax Help and That Contain
Taxpayer Information Cannot Be Accounted For**

Appendix II

Major Contributors to This Report

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Kerry Kilpatrick, Director

Russell Martin, Audit Manager

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Roberta Fuller, Auditor

**Computers Used to Provide Free Tax Help and That Contain
Taxpayer Information Cannot Be Accounted For**

Appendix III

Report Distribution List

Commissioner N:C
Director, Customer Assistance, Relationships, and Education W:CAR
Director, Field Assistance W:CAR:FA
Director, Strategy and Finance W:S
Director, End User Equipment and Services M:I:EU
Chief Counsel CC
National Taxpayer Advocate TA
Director, Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O
Office of Management Controls N:CFO:F:M

**Computers Used to Provide Free Tax Help and That Contain
Taxpayer Information Cannot Be Accounted For**

Appendix IV

**Stakeholder Partnerships, Education, and Communication
Territory Manager Responses**

Territory	Information Technology and Asset Management System (ITAMS) certification performed for Fiscal Year 2001?		Physical verification performed to ensure e-file data erased from volunteer computers at the end of Filing Season 2001?	
	Yes	No	Yes	No
Albany, NY		X	X	
Atlanta, GA	X			X
Austin, TX	X		X	
Baltimore, MD	X		X	
Birmingham, AL	X			X
Boston, MA		X		X
Buffalo, NY		X	X	
Charlotte, NC	X		X	
Chicago, IL	X		X	
Cincinnati, OH	X		X	
Cleveland, OH	X		X	
Columbia, NC	X		X	
Columbus, OH	X		X	
Dallas, TX	X		X	
Denver, CO	X		X	
Detroit, MI	X			X
El Paso, TX		*N/A	X	
Greensboro, SC	X		X	
Hartford, CT	X		X	
Houston, TX	X		X	
Indianapolis, IN	X			X
Jacksonville, FL	X			X
Kansas City, MO	X		X	
Las Vegas, NV	**X		X	
Los Angeles, CA		X	X	
Manchester, NH		X		X
Miami/Fort Lauderdale, FL	X		X	

**Computers Used to Provide Free Tax Help and That Contain
Taxpayer Information Cannot Be Accounted For**

Territory	Information Technology and Asset Management System (ITAMS) certification performed for Fiscal Year 2001?		Physical verification performed to ensure e-file data erased from volunteer computers at the end of Filing Season 2001?	
	Yes	No	Yes	No
Milwaukee, WI	X		X	
Nashville, TN	X			X
New Orleans, LA	X			X
New York, NY	X		X	
Newark, NJ		X		X
Oakland, CA	X		X	
Oklahoma City, OK	X			X
Omaha, NE	X		X	
Philadelphia, PA		X		X
Phoenix, AZ		X	X	
Pittsburgh, PA	X		X	
Portland, OR	X			X
Richmond, VA	X		X	
Sacramento, CA		X	X	
San Diego, CA	X		X	
San Jose, CA	X		X	
Seattle, WA		X		X
St. Louis, MO	X		X	
St. Paul, MN	X		X	
Tampa, FL	X		X	
Washington, DC	X		X	

Source: Responses provided by the Territory Managers for 48 territories to Treasury Inspector General for Tax Administration's e-mail survey.

*N/A – Refers to territories not in existence at the time certain operations were to be performed.

** - The territory assumed an ITAMS certification was performed for Fiscal Year 2001 since Information Systems has this responsibility.

Computers Used to Provide Free Tax Help and That Contain
Taxpayer Information Cannot Be Accounted For

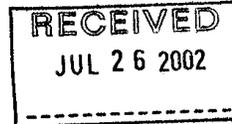
Appendix V

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

July 26, 2002



MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX

ADMINISTRATION

FROM:

John M. Dalrymple
John M. Dalrymple
Commissioner, Wage and Investment Division

SUBJECT:

Draft Audit Report – Computers Used to Provide Free Tax Help
and That Contain Taxpayer Information Cannot Be Accounted
For (Audit # 200240050)

I have reviewed your draft report and agree with the observations and recommendations in the report. I would note, however, that on stand up¹ of the Wage and Investment Division in October 2000, the senior management team of the new Stakeholder Partnerships, Education and Communication (SPEC) organization recognized that inadequate internal controls and accountability over computers were areas that needed dramatic improvement. For example, at the start of this audit, SPEC already had plans in place to conduct an inventory validation of all volunteer program computers after the 2002 filing season.

As noted in your report, SPEC has been successful in effectively promoting a key IRS objective to increase the e-filing of returns. By providing computers and tax preparation software for volunteers, they enabled over 700,000 or 64 percent of all volunteer-prepared returns, to be filed electronically during Fiscal Year (FY) 2001. We expect to exceed that accomplishment for FY 2002. We have also made significant progress in identifying and addressing the internal control issues raised in your report. Our comments on your specific recommendations follow:

RECOMMENDATION 1

Perform a physical inventory of all computers included in the IRS' Volunteer Income Tax Assistance (VITA) /Tax Counseling for the Elderly (TCE) programs. This inventory should include verification of computers presently recorded on Information Technology Asset Management System (ITAMS) as well as identification of computers in the VITA/TCE programs that are not yet recorded on ITAMS.

¹ The term "stand up" as used in this response refers to the inception of SPEC as part of the Wage and Investment Division effective October 1, 2000.

Computers Used to Provide Free Tax Help and That Contain Taxpayer Information Cannot Be Accounted For

2

ASSESSMENT OF CAUSE

The Integrated Network and Operation Management System (INOMS), the inventory system in place in October 2000, did not allow the flexibility to track the location of equipment at volunteer sites. Territories in existence at stand up had a separate tracking system (word processing file, spreadsheet, or database) to capture pertinent information about volunteer equipment. Instructions in the FY 2001 Filing Season Action Plan directed each territory to continue maintaining the existing inventory system.

The ITAMS replaced INOMS in March 2001; however, like the predecessor inventory system, ITAMS cannot track equipment to the volunteer tax preparation sites and organizations.² Therefore, territory offices will maintain a separate tracking system until we can develop a more viable system or modify ITAMS to accommodate our needs.

Generally, we direct inventory certification at computers we consider critical, those that are easily stolen, have a high dollar value, are frequently moved or assigned to a different employee or organization or have high value for some other reason. We designated much of the equipment used in the volunteer program for disposal because it no longer met the minimum specifications for IRS use.

CORRECTIVE ACTION

SPEC Headquarters provided instructions to field employees on May 24, 2002, to complete an inventory assessment and validate the equipment used in volunteer tax preparation programs.³ SPEC areas must complete this inventory and post results to a SPEC public folder by July 26, 2002. This assessment will identify and eliminate equipment that no longer meets minimum requirements for use in the volunteer program. A SPEC Analyst will consolidate the inventory and deliver results to the Program Manager responsible for ITAMS by October 15, 2002. SPEC will work with the Program Manager to complete the consolidation process by July 15, 2003.

On March 20, 2002, the Director of Tax Aide, American Association of Retired Persons, asked her volunteers to conduct an inventory of IRS equipment in their possession.⁴ This effort complements our activities to ensure we do not overlook equipment. SPEC will coordinate Tax Aide's efforts with our own inventory efforts to account for all IRS computers used by Tax Aide on ITAMS.

² Responsibility for inventory validation of ITAMS is charged to Modernization, Information Technology and Security Services (MITS) function of IRS per IRM 2.1.14.

³ See the attachment "SPEC Inventory Assessment and Validation."

⁴ Tax Aide is the largest recipient of the Tax Counseling for the Elderly grant program and contributes many hours in support of volunteer tax preparation activities.

Computers Used to Provide Free Tax Help and That Contain Taxpayer Information Cannot Be Accounted For

3

IMPLEMENTATION DATE

July 15, 2003

RESPONSIBLE OFFICIAL

Director, SPEC, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

SPEC will reconcile inventory annually with ITAMS.

RECOMMENDATION 2

Develop, distribute, and implement procedures to ensure that computer equipment obtained from external agencies is immediately added to ITAMS inventory. Outlined in these procedures should be adequate separation of duties with regard to ordering/procuring, receiving, delivering, and including on inventory.

ASSESSMENT OF CAUSE

The demand for computer equipment for volunteer tax preparers far exceeds our supply. SPEC identified resources outside IRS as an effective way to decrease the gap between equipment supply and demand. While addressing immediate needs, SPEC did not establish adequate management controls of the equipment inventory.

CORRECTIVE ACTION

We have temporarily suspended the acquisition of equipment from external sources. We are working with Modernization, Information Technology and Security Services (MITS), and Agency-Wide Shared Services to develop a computer refreshment strategy using IRS equipment no longer needed by our employees. After we develop this strategy, SPEC will determine whether needs still exist that we could meet through external acquisitions, for example excess military computers. Our new procedures, which we expect to complete by December 15, 2002, will address ordering/procuring, receiving, delivering, including on inventory, and disposal of non-working equipment.

IMPLEMENTATION DATE

December 15, 2002

Computers Used to Provide Free Tax Help and That Contain Taxpayer Information Cannot Be Accounted For

4

RESPONSIBLE OFFICIAL

Director, SPEC, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will use the annual ITAMS inventory report to monitor the equipment obtained from external sources.

RECOMMENDATION 3

Develop, distribute, and implement procedures to ensure that taxpayer *e-file* data is removed from volunteer computers at the end of a filing season.

ASSESSMENT OF CAUSE

At stand up, SPEC did not provide instructions on legacy operations to Field Operations employees to confirm a recognized practice of deleting data from equipment. To facilitate our primary mission, the delivery of a successful filing season in 2001, SPEC made very few changes to prior guidance. The legacy organization, Taxpayer Education, asked for an opinion from General Legal Services (GLS) concerning the IRS' obligation to safeguard information received by VITA volunteers. The GLS opinion, dated April 5, 2000, states that information provided to a volunteer preparer is not "taxpayer information" protected by 26 U.S.C. Section 6103. The opinion further states, "the Service is not legally required to protect information provided to VITA volunteers, the Service may require VITA volunteers to take reasonable steps to safeguard the information provided by taxpayers as condition for the loan of Service computers." The GLS opinion also established that policy and procedures were in place to require password protection and deletion of information at the end of filing season. In a report issued in July 2001⁵, you recommended the establishment of procedures to regularly remove taxpayer data from the hard drives of laptop computers used by volunteer tax assistants. We agreed to this recommendation and have taken the following steps to address this issue:

- On July 9, 2001, the Director, SPEC Field Operations, sent an e-mail to area directors and territory managers concerning the need to remind volunteers of their responsibilities for protecting taxpayer data.
- After filing season 2001, SPEC chartered the Computer Equipment and Space Issues Team. This group recommended in November 2001 standardized procedures for removal of tax data on volunteer computers.

⁵ Final Report 2001-20-108: Persistent Physical Security Vulnerabilities Should Be Corrected to Better Protect Facilities and Computer Resources

Computers Used to Provide Free Tax Help and That Contain Taxpayer Information Cannot Be Accounted For

5

CORRECTIVE ACTION

We issued instructions to all SPEC employees on December 19, 2001, in the FY 2002 Business Plan. We instructed the territory managers to delete all taxpayer data from volunteer computers. We incorporated the procedures for certification of data deletion into the SPEC Inventory Assessment and Validation Guide issued May 24, 2002. The inventory validation procedure discusses the responsibilities at the territory level of deleting information from equipment after a filing season. SPEC projects we will complete all certifications by October 15, 2002.

We also conducted a training session for area analysts and tax specialists responsible for the Computers for Volunteers Program on June 26 and 27, 2002. The class included the following topics: ITAMS Single Point Inventory Function overview, procedures for removal of tax data, and software and hardware issues. We will share additional guidance with this group as SPEC Headquarters develops it.

IMPLEMENTATION DATE

October 15, 2002

RESPONSIBLE OFFICIAL

Director, SPEC, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

In future years, SPEC will require annual certifications by June 30 from territory offices.

RECOMMENDATION 4

Develop, distribute, and implement procedures to ensure that only authorized software is loaded on to computers used in the IRS' VITA/TCE programs. Included in these procedures should be an immediate assessment of computers previously provided to volunteers to ensure that unauthorized software is removed.

ASSESSMENT OF CAUSE

SPEC did not address the license authority before loading the software on the computers.

Computers Used to Provide Free Tax Help and That Contain Taxpayer Information Cannot Be Accounted For

6

CORRECTIVE ACTION

We will include license authority in the development of procedures for acquisition of equipment from internal and external sources. Inventory validation procedures, issued on May 24, 2002, discuss the Territory Offices' responsibility to determine whether:

- 1) The software on the equipment is limited to the operating system, Internet Explorer, Adobe Acrobat, and tax preparation software
- 2) Other software is present on the equipment

Based on this equipment survey by Territory Offices and information provided by Counsel, SPEC will develop policy and procedures for authorized software and allowable software. SPEC asked MITS to consider the volunteer tax preparation program in negotiating future contracts for software purchases to clarify whether we are licensed for loading software on equipment used in the volunteer tax preparation program.

To address the need for an immediate assessment, SPEC included instructions in the Inventory Assessment and Validation Guide (Attachment 1) issued May 24, 2002. The projected completion date for all certifications is October 15, 2002.

IMPLEMENTATION DATE

October 15, 2002

RESPONSIBLE OFFICIAL

Director, SPEC, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

SPEC will require annual certifications from the territory offices.

RECOMMENDATION 5

Ensure that prior to loading software not specifically used in tax return preparation a written opinion from IRS's Chief Counsel is obtained to ensure that the IRS has the legal authority to provide the software.

ASSESSMENT OF CAUSE

The tax preparation software purchased for the volunteer tax preparation programs is licensed for use by both IRS and non-IRS users. Our current operating system is also

Computers Used to Provide Free Tax Help and That Contain Taxpayer Information Cannot Be Accounted For

7

licensed for use by both IRS and non-IRS users. However, other types of software purchased for IRS are silent as to the use of the software by non-IRS users. The existing opinion from IRS Counsel is also silent on the use of software not directly related to tax return preparation. Partners may need other types of software to complement their overall objectives; for example, training individuals on basic computer operations. Although not directly related to tax return preparation, basic computer operations such as word processing improve the skills of the end user, improve the quality of electronic filing volunteers, and complement objectives of our partners to enhance their employee computer skills.

CORRECTIVE ACTION

SPEC will request an opinion from IRS Counsel on whether SPEC can provide software beyond that needed for tax return preparation on equipment owned by the IRS. SPEC will work with MITS to ensure that we consider volunteer tax preparation program needs when negotiating the purchase of software that may be of benefit to the program, such as operating system, security, and word processing software⁶. SPEC will ensure MITS expands the language to cover use of the identified software on equipment owned by the IRS but used by volunteers. SPEC will also explore whether we can give this software to program participants.

IMPLEMENTATION DATE

May 15, 2003

RESPONSIBLE OFFICIAL

Director, SPEC, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

SPEC will require an annual certification from the Territory Offices.

RECOMMENDATION 6

In the long term, pursue legislative changes that would allow the IRS to transfer ownership of the computers to the VITA/TCE organizations.

⁶ The use of an operating system on IRS-owned equipment used by volunteers is covered under the existing IRS contract. However, this is not the case for all other software purchases.

Computers Used to Provide Free Tax Help and That Contain Taxpayer Information Cannot Be Accounted For

8

ASSESSMENT OF CAUSE

Much of the equipment used in the volunteer tax return preparation program was designated for disposal. Instead of disposing of the equipment, the IRS elected to use the equipment in the volunteer tax preparation program. Since we cannot transfer ownership of computers, storage space is a critical issue. Computer storage space is not available at some territory offices. SPEC's request for additional funds for computer storage was categorized as a critical small project need in June 2002. SPEC received funding for FY 2002 for 12 storage sites, but several sites remain unfunded.

CORRECTIVE ACTION

On April 4, 2002, SPEC asked Division Counsel for assistance in pursuing a legislative change to allow the transfer of computer ownership to organizations that assist SPEC in delivering volunteer tax return preparation. On May 29, 2002, Wage and Investment Division Counsel forwarded a request for guidance to General Legal Services.

IMPLEMENTATION DATE

May 15, 2003

RESPONSIBLE OFFICIAL

Director, SPEC, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

SPEC will check quarterly with Counsel on their progress.

If you have any questions, please call me at (202) 622-6860, or Mark Pursley, Director, SPEC, at (404) 338-7104.

Attachment